THE SOUTHLAND CORPORATION

# 1977 ANNUAL REPORT

## THE SOUTHLAND CORPORATION

**The Southland Corporation,** originator of the convenience store concept fifty years ago, is today one of the nation's largest retailers and consists of the Stores, Dairies, and Special Operations Groups.

**The Stores Group** is the largest operator and franchisor of convenience stores with 6,357 **7-ELEVEN** stores in 40 states, the District of Columbia, and 5 provinces of Canada. Other retail operations include 114 Gristede's and Charles & Co. food stores and sandwich shops in metropolitan New York, 384 R. S. McColl confectionery, tobacco, and news (CTN) stores in the United Kingdom, and an interest in 4 Super Siete stores in Mexico. An additional 239 **7-ELEVEN** stores are operated under area licenses in the United States, 348 in Japan, and 3 in Australia. Three Distribution Centers located in Texas, Florida, and Virginia serve 3,690 **7-ELEVEN** stores.

THE SOUTHLAND CORPORATION

**The Dairies Group** is a major processor of dairy products, which are distributed under 12 well-known regional brand names in 30 states and the District of Columbia.

**The Special Operations Group** includes the Chemical, Fast Foods, Hudgins Truck Rental, and Reddy Ice Divisions.

AUSTRALIA
CANADA
JAPAN
MEXICO
UNITED KINGDOM
UNITED STATES

R S McColl Limited

GRISTEDE'S

southland distribution center

ADOHR FARMS
BANCROFT DAIRY
BRIGGS DAIRY
CABELL'S
COOPER FARMS
EMBASSY DAIRY
HARBISONS DAIRIES
HORTEN'S DAIRY
MIDWEST FARMS
OAK FARMS
VELDA FARMS
WANZER'S

SOUTHLAND FOOD CENTERS

Landshire FOOD SYSTEMS

Hudgins

Reddy ice

# TO OUR SHAREHOLDERS:

Southland's 50th Anniversary was the greatest year in its history with both sales and earnings again reaching record levels. At the same time, the Company strengthened an already sound financial position, expanded 7-Eleven operations, and made other substantial capital investments for the future.

Our historically strong upward pattern of sales and earnings growth continued with net earnings up 18.2% on a 19.9% gain in revenues. Earnings rose to $47.6 million while primary earnings per share increased to $2.45 and diluted earnings to $2.37, both up 16.7%. Revenues reached a new high of $2.544 billion with the gain over last year substantially exceeding the Company's compound growth rate of 15.7% over the past five years.

Sales of 7-Eleven exceeded two billion dollars for the first time, climbing to $2.1 billion, and represented 83% of total Company sales. This 22.5% gain, the largest since 1968, resulted from more efficient use of selling space, increased emphasis on self-serve gasoline, the addition of new stores, and the continued popularity of convenience shopping. Also, successful merchandising and promotional programs, increased consumer buying power, and competitive pricing of selected items contributed to the exceptional gain. The Dairies Group had combined intracompany and outside sales of $361.7 million, up 6.6%, and the Special Operations Group, which includes the ice, chemical, fast foods, and truck leasing divisions, attained an excellent 24.4% increase.

The outstanding sales and ongoing cost control programs enabled Southland, for the fifth consecutive year, to reduce the ratio of expenses to revenues during a period when all business costs continued to escalate. This achievement offset to a large extent the continuing pressure on already modest dairy margins and the expected effect on convenience store margins of promotional programs, our competitive pricing strategy for selected items, and a changing product mix, including the substantial increase in sales of self-serve gasoline, a high-volume low-gross profit product. Earnings of the Dairies Group declined in

# COMPARATIVE HIGHLIGHTS

(Dollars in thousands except per share data) **YEAR ENDED DECEMBER 31**

| **FOR THE YEAR** | **1977** | 1976 | % Change |
|---|---|---|---|
| Total Revenues | **$2,544,478** | $2,121,145 | 19.9 |
| Net Earnings | **47,596** | 40,277 | 18.2 |
| Primary Earnings Per Share* | **2.45** | 2.10 | 16.7 |
| Diluted Earnings Per Share | **2.37** | 2.03 | 16.7 |
| Cash Dividends | **10,961** | 8,660 | 26.6 |
| Return on Beginning Shareholders' Equity | **15.6%** | 14.8% | |
| **AT YEAR-END** | | | |
| Working Capital | **149,438** | 114,865 | 30.1 |
| Current Ratio | **1.79:1** | 1.79:1 | |
| Long-Term Debt | **195,520** | 153,093 | 27.7 |
| Shareholders' Equity | **346,540** | 304,451 | 13.8 |
| Book Value Per Share* | **17.83** | 15.87 | 12.4 |
| Annual Dividend Rate Per Share | **.60** | .50 | 20.0 |
| Average Shares Outstanding (000's) | **19,434** | 19,186 | 1.3 |
| Number of Shareholders | **8,764** | 8,881 | (1.3) |
| Number of Employees | **34,000** | 31,000 | 9.7 |

*Based on average number of shares outstanding during the period after adjusting for all stock dividends.

JERE W. THOMPSON
*President*

H. E. HARTFELDER
*Vice Chairman*

JOHN P. THOMPSON
*Chairman*

the last half of the year, and we are still experiencing the generally unfavorable business conditions affecting the dairy processing industry — high farm milk costs, increasing distribution expenses, severe competition in many markets, and resistance to price adjustments. Although the overall first quarter sales trend is strong considering the extreme winter weather, margins continue to be soft as the result of a changing product mix and the inflationary impact of recent increases in the minimum wage, social security taxes, and related payroll expenses, as well as generally higher costs of doing business.

Our confidence in 7-Eleven, the Company's principal business, is reflected by the net addition of 404 neighborhood convenience stores, bringing the total at year-end to 6,357. Self-serve gasoline has added a new dimension to the product mix of 1,573 stores, an increase of 338 during the year. Now representing almost 10% of sales, this additional service is another example of 7-Eleven's adaptability to ever-changing customer preferences and lifestyles.

In 1977, Southland again made major capital investments to expand operations, modernize and update facilities, increase productivity, and enlarge capacity to meet our long-term growth objectives. Capital expenditures were $106 million, the largest single-year investment program in the Company's history. We are particularly optimistic about the future of our retailing operations, and $75.3 million, or 71% of capital outlays, were for the Stores Group. Expenditures of $316.8 million, or 76% of total investments made during the past five years, have been for convenience stores, distribution centers, and fast food operations. The benefits of these substantial allocations of capital are highlighted by the Company's average annual compound growth rate of 18.5% in earnings for the five-year period.

Cash dividends to shareholders during the year were $10.9 million, an amount in excess of total corporate earnings only ten years ago. In April, 1977, the annual rate was increased 20% from 50 to 60 cents a share. During the past seven years, the dividend has been raised six times, providing an average annual compound growth rate of 20.8%. Cash dividends, first declared in 1957, have been paid in each of the past twenty-one years and, for the twelfth consecutive year, a 3% stock dividend was distributed.

We are extremely proud of the social awareness and active, personal involvement of the entire "Southland family" in numerous community endeavors throughout the nation. One outstanding effort was our second year of participation in the annual Jerry Lewis Labor Day Telethon on behalf of the Muscular Dystrophy Association. The cooperation and dedication of customers, shareholders, employees, franchisees, and suppliers in thousands of neighborhoods resulted in the collection of $4.2 million for the campaign, again making Southland the largest fund raiser of any corporate sponsor.

We continue to analyze, refine, and strengthen our organizational structure to provide the young, aggressive management depth necessary to remain ahead of the demands dictated by growth. In keeping with that objective, 7-Eleven operations were realigned into six geographic regions and 21 divisions. Two Division Managers were promoted to Regional Manager, and two Regional Managers were elevated to the position of Vice President. In addition, in April, 1977, Joseph S. Hardin, Executive Vice President, Planning and Special Operations, was elected to a new ninth directorship.

As we look forward to Southland's second half-century, our immediate goals and long range plans are both ambitious and challenging. We are dedicated to maintaining our leadership in the convenience store field and, while no single factor will ensure success, we are confident that Southland's reservoir of human and financial resources provides a solid foundation for sustained growth.

John P. Thompson

JOHN P. THOMPSON
*Chairman*

H. E. Hartfelder

H. E. HARTFELDER
*Vice Chairman*

Jere W. Thompson

JERE W. THOMPSON
*President*

March 10, 1978

# STORES GROUP

## Serving The Nation By Serving The Neighborhoods

To more than five million customers a day, **7-ELEVEN** is a household word, an integral part of their routines, and a family friend. Its widespread appeal is convenience — early and late shopping, fast friendly service, easy access, and a choice of more than 3,000 different items specially selected to meet the varying needs and preferences of men, women, and children in more than 6,300 neighborhoods.

Each **7-ELEVEN** speaks for itself in portraying its customers, products, and services. It is a neighborhood store, and its location has been carefully researched to project customer demand and assure that it is in the right place to meet the needs of that particular neighborhood.

The largest segment of **7-ELEVEN** shoppers, 25-49 years of age, stop at their neighborhood stores on the way to or from work, at noon, and late into the night for hot coffee, cigarettes, light snacks, fill-in grocery needs, or self-serve gasoline. This prime of life age group, according to U.S. Department of Commerce projections, will reach 91.5 million by 1990, a gain of more than 23 million potential customers.

Working women look for the nearest **7-ELEVEN** when they need to make a fast purchase of hosiery, cosmetics, cigarettes, milk, bread, groceries, household supplies, or "Hot to Go" foods. It is estimated that by 1990 this group will constitute more than one-half of the nation's permanent workforce.

Children are always welcome at "their" neighborhood **7-ELEVEN** where they purchase Slurpees, soft drinks, comic books, school supplies, candy, snacks, and small toys. It is the family store, where customers in automobiles can count on finding space close to the entrance and where bicycles are safely parked on the elevated apron. Approximately one-fifth of all customers bicycle or walk to **7-ELEVEN**, and almost 60% choose one within a mile of their home or place of business.

In addition to convenience of location, customers know they will find the right product at the right time at **7-ELEVEN**. In response to consumer demand, the conventional hours of 7 am to 11 pm have been extended in 5,559 stores, including 4,816 which remain open around the clock. Customers shop their friendly neighborhood store seven days a week, and more than 30% of purchases are on weekends.

Industry sources project that more than half of all gasoline purchases within the next few years will be through self-serve facilities, and Southland will continue to respond to this increasing demand. Gasoline was added at 338 locations during the year, bringing the number of **7-ELEVEN** stores offering this service to 1,573 at year-end with sales volume up approximately 77%.

Americans now spend more than one-third of their food dollars for "food away from home" as they buy one of every five meals at restaurants, cafeterias, or fast food outlets. **7-ELEVEN**, always the place to buy a cold drink or quick snack, has become a significant factor in this rapidly expanding market through its popular ready-to-heat or ready-to-eat fast foods program. While preferences vary geographically, the most popular choices are Cheeseburger, Ham and Cheese, Sausage and Biscuit, Submarine, and Egg Hamlette.

Combined sales of the Stores Group were up 21.8% to $2.252 billion, compared with $1.849 billion in 1976, and represented

**PERCENT CONVENIENCE STORES SALES (BY PRINCIPAL PRODUCT CATEGORY)**

| | **1977** | 1976 | 1975 | 1974 | 1973 |
|---|---|---|---|---|---|
| Tobacco Products | **14.2%** | 14.7% | 15.6% | 15.7% | 15.8% |
| Groceries | **14.0** | 14.6 | 15.3 | 17.1 | 18.2 |
| Beer/Wine | **13.7** | 14.4 | 14.8 | 14.1 | 13.6 |
| Soft Drinks | **11.0** | 10.7 | 11.5 | 11.5 | 10.8 |
| Non-Foods | **9.9** | 10.2 | 9.5 | 9.3 | 9.1 |
| Gasoline | **9.8** | 6.8 | 3.9 | 2.7 | 2.3 |
| Dairy Products | **9.3** | 9.6 | 9.9 | 10.5 | 11.3 |
| Candy | **5.0** | 5.4 | 5.7 | 5.3 | 4.8 |
| Baked Goods | **5.0** | 5.3 | 5.7 | 5.9 | 5.9 |
| Other Food Items | **4.7** | 4.7 | 4.2 | 3.9 | 3.3 |
| Health/Beauty Aids | **3.4** | 3.6 | 3.9 | 4.0 | 4.9 |
| Total | **100.0%** | 100.0% | 100.0% | 100.0% | 100.0% |

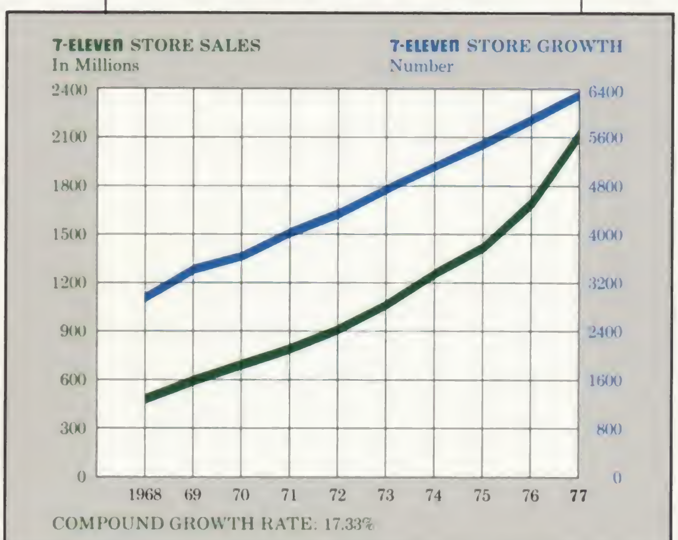
The Company does not record sales by product lines but estimates the percentage of convenience store sales by principal product category based upon total store purchases.




89% of total sales. Fifty years after Southland introduced the convenience store concept, that segment of the retail food industry in 1977 had sales of approximately $8.85 billion with more than 30,000 units in operation.

In 1977, **7-ELEVEN** sales topped the two billion dollar mark for the first time, reaching $2.1 billion, a 22.5% increase over $1.715 billion the previous year. This exceptionally strong sales gain is the result of competitive pricing of selected items, successful merchandising and advertising programs, addition of new stores, improvement in the economy, and a substantial increase in sales of self-serve gasoline.

The Gristede's and Charles & Co. stores serving the greater New York area also showed good sales growth. There were 114 Gristede's units operating at year-end, featuring select meats, produce, and a full line of premium quality groceries, with some stores offering "big city" convenience through such specialized services as telephone ordering, home delivery, and charge accounts. The Charles & Co. sandwich shops feature made-to-order sandwiches, beverages, and snacks. Six gourmet stores offer specialty foods and custom designed gift packaged delicacies.




At year-end, there were 6,357 **7-ELEVEN** stores, 3,944 Company operated and 2,413 franchised, in 40 states, the District of Columbia, and 5 provinces of Canada. During the year, 658 new stores were opened or acquired and 254 closed for a net gain of 404 units. An additional 239 are operated under area licenses granted for parts of Arkansas, Indiana, Iowa, Kansas, Kentucky, Michigan, Missouri, Montana, Nebraska, North and South Dakota, Ohio, Oklahoma, Pennsylvania, Texas, West Virginia, and Wyoming.

Southland is continuing to expand its international store operations. At year-end, 348 **7-ELEVEN** stores were operating under an area license for Japan. A similar agreement for Australia was signed in late 1976 and 3 stores have been opened. Sales of stores operating under U.S. and foreign area licenses are not included in Southland's revenues, but royalties based on sales of these operations are reflected in other income.

The 384 R. S. McColl confectionery, tobacco, and news (CTN) stores in England and Scotland achieved an excellent 29.6% increase in earnings on an 8.4% gain in revenues. Sales of this wholly-owned subsidiary are not included in Southland's revenues, but earnings are reported as equity in earnings of affiliates. The first test store introducing the **7-ELEVEN** convenience concept in England was



opened in December at Milton Keynes, 70 miles northwest of London. The 3,300 sq. ft. store features fresh meat and produce in addition to the conventional merchandise assortments of **7-ELEVEN** and the CTN stores. Initial customer acceptance has been excellent.

| STORE SUMMARY | Opened | Closed | End of Year |
|---|---|---|---|
| **7-ELEVEN** | | | |
| United States | 632 | 252 | 6,213 |
| Canada | 26 | 2 | 144 |
| Total | 658 | 254 | 6,357 |
| Gristede's and Charles & Co. | 1 | 7 | 114 |
| Total | 659 | 261 | 6,471 |
| R. S. McColl–United Kingdom | | | |
| CTN | 34 | 15 | 384 |
| **7-ELEVEN** | 1 | – | 1 |
| Total | 35 | 15 | 385 |
| **7-ELEVEN**–Area Licenses | | | |
| Japan | | | 348 |
| United States | | | 239 |
| Australia | | | 3 |
| Total | | | 590 |
| Super Siete–Mexico | | | 4 |

## DISTRIBUTION CENTERS

Southland's unique distribution system was designed to meet the specific needs of **7-ELEVEN** for a reliable and efficient source of supply, frequent deliveries, and high store in-stock position. The stores also required a means of purchasing in less than case lots, thus assuring fresher merchandise on the shelves, more productive use of selling space, improved store profitability, faster turnover, and a more manageable inventory. Those needs have been met for 3,690 stores in 20 states, or 58% of all **7-ELEVEN** stores, through Distribution Centers located in Florida, Texas, and Virginia. In 1977, the three Centers made a significant contribution to profits with intracompany sales of $317 million, up 20% over 1976.

The Centers employ the most advanced computer technology and merchandise handling methods. Order forms, individually tailored to the requirements of each store, are compiled and updated monthly by computer. Daily, store orders are transmitted through the Company's computer center in Dallas to the Distribution Centers, where merchandise is "picked" and assembled for delivery in custom-built trailers with separate compartments for dry, chilled, and frozen items. The entire cycle of merchandise movement, replenishing the Centers' inventories, truck loading sequence, and the most energy-efficient routing of vehicles is scheduled by computer.

During the year, the highly efficient inventory control system enabled the Centers again to achieve an exceptionally high order fill rate of 99% while maintaining an average turnover rate of 26 times.

Recently, each Center has made available to **7-ELEVEN** a specialized in-store service program. Representatives now visit approximately 2,000 stores on a regular basis to assist in ordering, displaying, and merchandising certain categories of products. Included in the program are selected seasonal and promotional food and non-food items.

## DAIRIES GROUP

Southland's 31 dairy processing plants and 93 principal distribution centers serve customers in 30 states and the District of Columbia. In addition to milk and ice cream, the Dairies Group produces yogurt, ultra-pasteurized creams, juices, eggnog, dips, toppings, sandwich ingredients, and salads.

Total sales increased 6.6% to $361.7 million for the year. Outside sales of $235.9 million, approximately the same as 1976, represented 9% of corporate sales. Intracompany sales were up 21.4% to $125.8 million as a result of more aggressive merchandising of dairy products in **7-ELEVEn** stores, increased volume in salads and sandwich ingredients, and an expanded product line including popular natural flavored ice creams. The Dairies Group served 5,118 of the convenience stores with milk, ice cream, or related products and supplied approximately 68% of dairy products sold in all **7-ELEVEn** stores.

Although total sales were up, operating profits were down due primarily to increased costs, extreme pressure on already modest margins, and generally unfavorable business

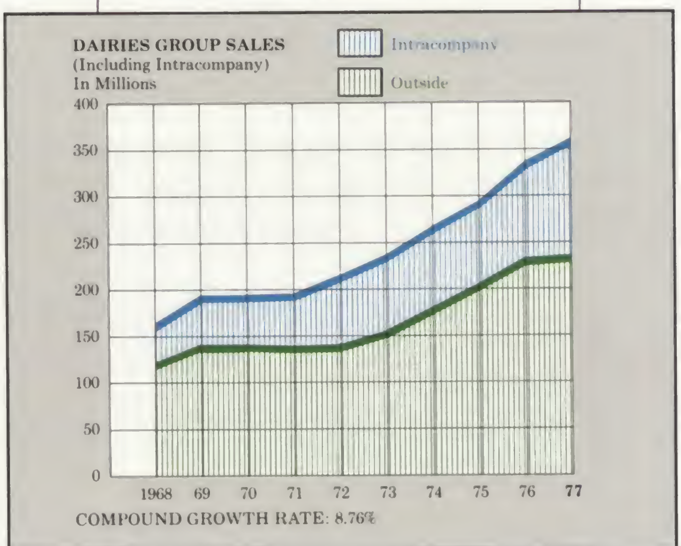

conditions affecting the dairy industry. Severe competition in many market areas and resistance to price adjustments made it difficult to offset continued increases in farm milk, distribution, and general business costs. The effect on Southland of these conditions was lessened to some extent by the geographic spread of operations and overall processing efficiencies, attributable to sustained plant modernization and automation programs.

The appealing taste and nutritional value of yogurt has resulted in its growing popularity with a weight conscious American public. Sales of a low fat, Swiss style yogurt distributed to **7-ELEVEN** stores and other customers more than doubled during the year. The newly formulated yogurt won two first place awards and the highest overall rating in a nationwide competition sponsored by the American Cultured Dairy Products Institute.

**DISTRIBUTION OF DAIRY SALES**

**CUSTOMERS**

| | 1977 | 1976 |
|---|---|---|
| Wholesale | **50%** | 54% |
| Intracompany | **35** | 31 |
| Distributors and Others | **15** | 14 |
| Home Deliveries | **–** | 1 |
| Total | **100%** | 100% |




Specialty Foods, a division of the Dairies Group, substantially increased sales of salads and other products distributed to **7-ELEVEN** stores and outside customers. The division also processes sandwich ingredients for the popular fast foods program and produces a line of fruit juices and drinks, yogurt, dips, eggnog, and ultra-pasteurized creams which are marketed under various Southland brand names and private labels of other industry customers.

Plant and equipment improvements made during the year included extensive modernization and expansion of Velda Farms in Miami and the Midwest Farms milk processing facility in Memphis. Construction of a new Specialty Foods salad plant in Ft. Worth is scheduled for completion this spring. A January, 1977, addition to the Dairies Group was a small milk processing plant in Findlay, Ohio.

Equipment for manufacturing an expanded line of frozen novelties was installed at Oak Farms early in the year, and these confections are being distributed through **7-ELEVEN** stores and to outside customers in the Southwest and Southeast. The line now includes the "Big Deal," crunchy chocolate coated ice cream on a stick; the "Gram Daddy," a sandwich-like novelty with ice cream between graham crackers and coated with butterscotch; and the "Big Bite" or "Big Wheel," ice cream between large chocolate covered oatmeal cookies.

# SPECIAL OPERATIONS GROUP

The diversified businesses of the Special Operations Group distribute a variety of products and provide services to the Company as well as to outside customers. Sales of the group increased 24.4% to $99.7 million for the year with outside sales up 53.2% to $47.7 million, representing 2% of total Company sales. Intracompany sales of $51.9 million were up 6.2% over 1976.

## CHEMICAL

Chemical Division sales were up 76.6% for the year and sales to outside customers, now representing 70% of the total, were more than double 1976 results. This rapidly growing division produces a broad line of specialty chemical products for distribution throughout the United States and internationally. Operations now include manufacturing plants in Illinois, Florida, two Texas locations, and nine sales offices.

The early 1977 addition of the Arthur C. Trask Co. plant in Chicago increased the division's manufacturing capabilities for sulfonation, sulfation, oxidation, and esterfication. A wide variety of products produced at the facility are distributed primarily to the tanning, paper, textile, cosmetic, and pharmaceutical industries.

Southern Shortenings, Inc. in Sanford, Florida, purchased in October, provided an opportunity to strengthen Chemical's bakery product line and increase its technical capabilities to manufacture certain emulsifiers used in the division's multi-functional dough conditioners and ice cream stabilizers. To meet the growing demand for high quality specialty chemicals for the food processing industry, production will be expanded in


Dallas, Texas


Chicago, Illinois


Sanford, Florida

**BAKERY PRODUCTS**
- Dough Strengtheners and Softeners
- Mold Inhibitors
- Flavors
- Cleaners/Sanitizers
- Pan Oils
- Variety Bread Bases
- Dough Driers
- Fruit Toppings

**LEATHER TANNING**
- Tanning Extracts
- Leather Impregnants
- Leather Conditioners
- Equipment

**SOAP AND DETERGENT**
- Fats and Oils
- Fatty Acids
- Surface Active Agents
- Waxes
- Chelates

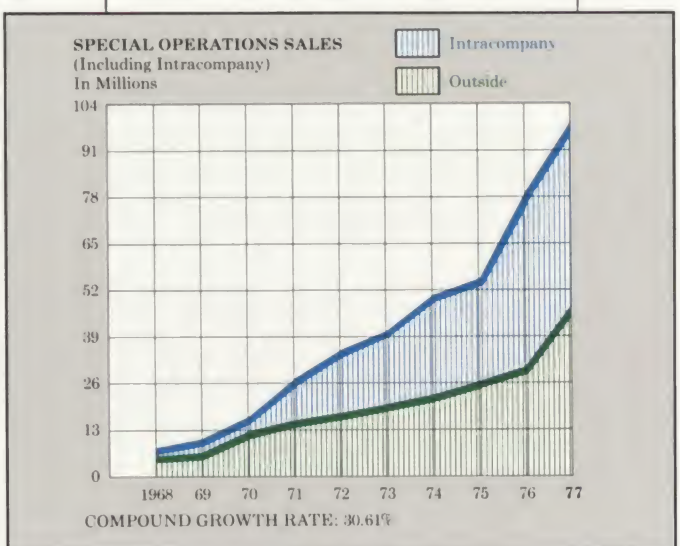
**TEXTILE**
- Sodium Acetates
- Defoamers
- Dyestuff Dispersants

**DAIRY**
- Flavors
- Ice Cream Stabilizers
- Cleaners/Sanitizers
- Fruit Products
- Imitation Fruit Drink Bases

**SPECIALTY COATINGS**
- Mirror Backing
- Can-sealants
- Inks
- Baking Enamels
- Gums and Resins

**BEVERAGE**
- Sodium Benzoate
- Flavor Concentrates
- Cleaners/Sanitizers

**MISCELLANEOUS**
- Lignosulfonates
- Lanolins
- Food Grade Emulsifiers
- Lithium Hypochlorite
- Paper Defoamers




1978 to include a new line of readily dispersible powdered food grade emulsifiers.

The Division supplies Southland operations, as well as outside customers, with food ingredients, flavorings, preservatives, sanitizers, cleansing agents, and other specialty chemicals. Flavors produced by the division are used by the Southland Food Centers for the preparation of **7-ELEVEN** Slurpee syrup. In addition, Chemical's product line includes industrial coatings, can-sealants, and a line of surfactants which are used in the textile, agriculture, and oil field service industries. Lithium hypochlorite, added in 1977, is distributed for use in laundry bleaches, sanitizers, and swimming pool water treatment products. Roller drying capacity will be almost tripled in 1978 to expand production and add new products to the line, including sodium acetate, which has wide industrial applications.

With its expanded marketing and technical staff, Chemical is now better able to provide a broad range of industrial customers a diverse product line which is kept up to date and competitive through continuous research and development. The division's added production facilities and manufacturing capabilities, as well as the geographic spread of operations, offer new opportunities for continuing growth and profitability.

## HUDGINS

Hudgins Truck Rental provides full-maintenance truck leasing from 18 service centers in Alabama, Florida, Missouri, Tennessee, Texas, and Virginia. The division furnishes vehicles for a number of well-known national and regional businesses as well as the three Distribution Centers and the Chemical Division. Hudgins achieved excellent sales and profit increases during the year, with sales to outside customers accounting for 68% of revenues.

## REDDY ICE

Reddy Ice manufactures packaged and commercial ice at plants in Dallas, Waco, Houston, Austin, Ft. Lauderdale, and Las Vegas for distribution in 5 states through **7-ELEVEN** stores and to outside customers. Extremely favorable weather conditions contributed to the division's record year in both sales and profits. Outside customers accounted for 67% of sales. Capacity of the Houston plant was increased 37% during the year to meet additional sales demand in that market. Another ultra-modern plant, scheduled for completion in June, 1978 in Dallas, will be the largest fully automated ice facility in the United States, with an annual capacity in excess of 100,000 tons.

# FAST FOODS

Higher incomes, changing lifestyles, larger numbers of working women, smaller families, more single persons, and increased mobility of the population are key factors responsible for a strong upward trend for "food away from home." This market now accounts for 6.6% of disposable personal income and in future years is expected to capture an even larger share of the total food dollar. Southland has and will continue to respond to this growing consumer demand through its popular **7-ELEVEn** "Hot to Go" fast foods program and the newly acquired Landshire sandwich operation.

The three Southland Food Centers, together with Landshire and its franchisees, sold approximately 70 million sandwiches during the year through **7-ELEVEn**, other retailers, and to institutional customers. Schools, hospitals, federally sponsored programs, vending companies, independent retailers, and other outside customers represented 40% of sales, compared with only 23% in 1976.

From a line of approximately 30 sandwiches, customer preferences are monitored to assure that the most popular items are always available. The high quality sandwiches, marketed under the **7-ELEVEn** and Landshire labels, are distributed either fresh or flash-frozen for convenient heating in microwave or infrared ovens.


In addition to sandwiches, the Food Centers produced 1.2 million gallons of Slurpee syrup from flavor concentrates manufactured by the Chemical Division.

Sales and earning of the division showed strong gains for 1977.

# FINANCIAL REVIEW

## USES OF 1977 REVENUE DOLLAR


Federal, state, and local taxes have a major impact on the Company's earnings. In 1977, after all other costs of doing business, Southland's taxes totaled $82.7 million, or 64% of income before all taxes, leaving only $47.1 million, or 36% of profits available for reinvestment in the growth of the Company and dividends to shareholders.

| | | | |
|---|---|---|---|
| Income Before All Taxes | | $129,848,000 | 100% |
| Taxes on Income | 47,283,000 | | |
| Payroll Taxes | 20,496,000 | | |
| Other Taxes | 14,960,000 | | |
| Total Taxes | | 82,739,000 | 64% |
| Net Earnings Before Equity in Earnings of Affiliates | | $ 47,109,000 | 36% |

# TEN YEARS OF GROWTH
THE SOUTHLAND CORPORATION AND SUBSIDIARIES

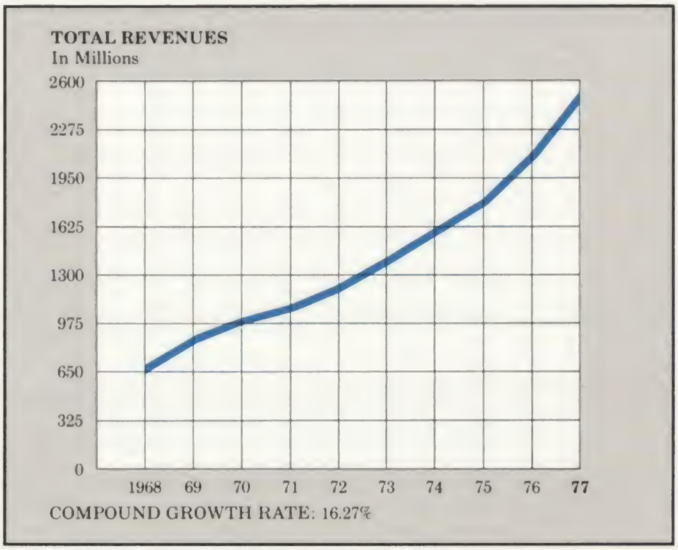
**(Dollars in thousands except per share data)**

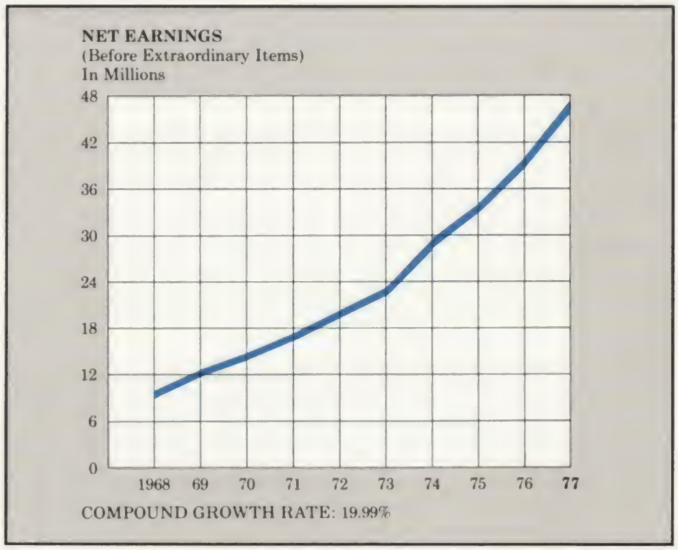
| | 1968 | 1969 | 1970 | 1971 |
|---|---|---|---|---|
| **Operations** | | | | |
| Total revenues | $ 665,764 | $ 874,220 | $ 986,580 | $ 1,085,107 |
| Increase over prior year | 18.14% | 31.31% | 12.85% | 9.99% |
| Net earnings (Note 1) | 9,862 | 12,436 | 14,895 | 17,300 |
| Increase over prior year | 28.16% | 26.10% | 19.77% | 16.15% |
| Per revenue dollar | 1.48% | 1.42% | 1.51% | 1.59% |
| Return on beginning shareholders' equity | 23.69% | 15.32% | 14.96% | 15.27% |
| **Assets Employed** | | | | |
| Working capital | 56,906 | 76,487 | 79,856 | 83,689 |
| Property, plant, and equipment (net) | 96,607 | 132,494 | 143,610 | 155,688 |
| Depreciation and amortization | 7,343 | 11,616 | 15,009 | 16,247 |
| Total assets | 208,393 | 279,986 | 299,681 | 326,478 |
| **Capitalization** | | | | |
| Long-term debt | 63,887 | 97,913 | 97,299 | 95,192 |
| Shareholders' equity | 81,170 | 99,546 | 113,285 | 137,132 |
| Total capitalization | 145,057 | 197,459 | 210,584 | 232,324 |
| Long-term debt to total capitalization | 44.04% | 49.59% | 46.20% | 40.97% |
| **Per Share Data (Note 4)** | | | | |
| Primary earnings | .71 | .81 | .96 | 1.09 |
| Earnings assuming full dilution | .65 | .73 | .85 | .99 |
| Cash dividends | .11 | .12 | .12 | .15 |
| Shareholders' equity | 5.88 | 6.49 | 7.27 | 8.65 |
| **Other Data** | | | | |
| Cash dividends | 1,557 | 1,796 | 1,888 | 2,423 |
| Payout of net earnings | 15.79% | 14.44% | 12.68% | 14.01% |
| Stock dividends | 3% | 3% | 3% | 3% |
| Stock splits | 3-for-2 | | | 3-for-2 |
| Average shares outstanding | 13,799,181 | 15,337,791 | 15,574,912 | 15,856,800 |
| Average diluted shares | 16,179,488 | 18,851,157 | 19,318,443 | 19,302,789 |
| Market price range (Note 5) | | | | |
| High | 22¾ | 22 | 18⅞ | 29⅛ |
| Low | 11⅜ | 15⅞ | 13¼ | 18¼ |
| Number of shareholders | 7,457 | 8,079 | 8,249 | 8,866 |
| Number of employees | 16,900 | 19,500 | 18,900 | 21,500 |

**Notes:**

(1) Before extraordinary income.
(2) Includes capital leases entered into after December 31, 1976.
(3) Includes amortization of capital leases entered into after December 31, 1976.
(4) Based on average shares outstanding adjusted for stock dividends and splits.
(5) Adjusted for stock dividends and splits.

| 1972 | 1973 | 1974 | 1975 | 1976 | **1977** | *10 Year Compound Growth* |
|---|---|---|---|---|---|---|
| $ 1,228,350 | $ 1,396,491 | $ 1,613,125 | $ 1,789,754 | $ 2,121,145 | **$ 2,544,478** | 16.27% |
| 13.20% | 13.69% | 15.51% | 10.95% | 18.52% | **19.96%** | |
| 20,366 | 23,328 | 29,736 | 34,319 | 40,277 | **47,596** | 19.99% |
| 17.72% | 14.55% | 27.47% | 15.41% | 17.36% | **18.17%** | |
| 1.66% | 1.67% | 1.84% | 1.92% | 1.90% | **1.87%** | |
| 14.85% | 12.01% | 13.93% | 14.11% | 14.82% | **15.63%** | |
| 107,912 | 95,973 | 87,151 | 94,735 | 114,865 | **149,438** | |
| 165,270 | 219,262 | 253,864 | 290,583 | 339,447 | **425,159** | **(Note 2)** |
| 17,862 | 21,543 | 25,250 | 30,214 | 36,044 | **43,467** | **(Note 3)** |
| 389,353 | 441,125 | 485,985 | 536,978 | 626,460 | **795,996** | |
| 82,043 | 107,496 | 105,609 | 119,911 | 153,093 | **195,520** | |
| 194,202 | 213,445 | 243,289 | 271,821 | 304,451 | **346,540** | 23.60% |
| 276,245 | 320,941 | 348,898 | 391,732 | 457,544 | **576,550** | **(Note 2)** |
| 29.70% | 33.49% | 30.27% | 30.61% | 33.46% | **33.91%** | |
| 1.14 | 1.26 | 1.60 | 1.80 | 2.10 | **2.45** | 14.55% |
| 1.08 | 1.20 | 1.52 | 1.74 | 2.03 | **2.37** | 15.32% |
| .19 | .22 | .31 | .37 | .45 | **.56** | |
| 10.85 | 11.57 | 13.09 | 14.25 | 15.87 | **17.83** | 18.06% |
| 3,491 | 4,096 | 5,834 | 7,033 | 8,660 | **10,961** | 23.37% |
| 17.14% | 17.56% | 19.62% | 20.49% | 21.50% | **23.03%** | |
| 3% | 3% | 3% | 3% | 3% | **3%** | |
| 17,902,726 | 18,453,364 | 18,580,014 | 19,070,823 | 19,186,202 | **19,433,920** | |
| 19,733,376 | 20,252,004 | 20,247,318 | 20,275,456 | 20,301,988 | **20,417,057** | |
| 34⅞ | 27¾ | 19½ | 27 | 26⅞ | **26⅝** | |
| 21⅞ | 11½ | 11¾ | 14⅜ | 19¾ | **19⅞** | |
| 9,418 | 9,476 | 9,351 | 9,093 | 8,881 | **8,764** | |
| 24,100 | 26,800 | 28,200 | 28,600 | 31,000 | **34,000** | |




## REVENUES

Revenues reached an all-time high of $2.544 billion, up $423 million over last year's record $2.121 billion. The exceptionally strong 19.9% increase, the largest for any year since 1969, substantially exceeded the Company's five year compound growth rate of 15.7%.

**Revenues** (Millions)

| QUARTER | 1977 | 1976 | % Gain |
|---|---|---|---|
| First | **$ 536.8** | $ 465.5 | 15.3 |
| Second | **648.1** | 538.9 | 20.3 |
| Third | **694.1** | 569.6 | 21.9 |
| Fourth | **665.5** | 547.1 | 21.6 |
| TOTAL | **$2,544.5** | $2,121.1 | 19.9 |

The Stores Group represented 89% of total sales with the Dairies Group accounting for 9% and the Special Operations Group 2%.

7-Eleven sales, representing 83% of Company sales, rose 22.5% through more efficient use of selling space, increased volume in self-serve gasoline, and continuation of the favorable demand trend for convenience shopping, as well as the net addition of 404 new stores. Stores Group sales were up 21.8% while the Special Operations Group showed a gain of 53.2%. Dairies Group sales were approximately the same as in 1976.

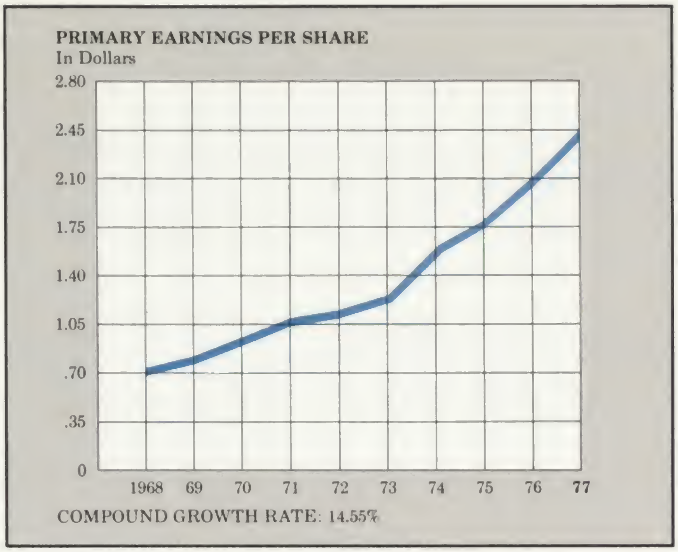
## NET EARNINGS

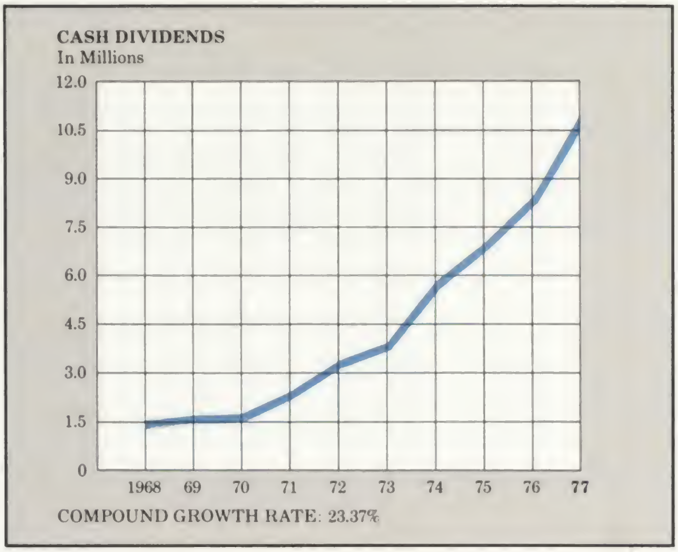
Net earnings were a record $47.6 million, up $7.3 million from 1976 earnings of $40.3 million. The 18.2% gain over last year's earnings was primarily the result of the convenience stores' increased volume and the efficiencies realized through the Distribution Centers. Also, the Special Operations Group's additional sales volume with expanded margins contributed to the gain.

**Net Earnings** (Thousands)

| QUARTER | 1977 | 1976 | % Gain |
|---|---|---|---|
| First | **$ 6,190** | $ 5,456 | 13.5 |
| Second | **15,140** | 12,277 | 23.3 |
| Third | **16,064** | 13,197 | 21.7 |
| Fourth | **10,202** | 9,347 | 9.1 |
| TOTAL | **$47,596** | $40,277 | 18.2 |

Net return on revenues for the year amounted to 1.87%, one of the highest after tax profit margins of any major food retailer. In 1977, 85% of the Company's total operating profits were from convenience stores, the fastest growing segment of the highly competitive food retailing industry. One of the Company's primary goals is to improve net return on each revenue dollar while maximizing sales.




## EARNINGS PER SHARE

Primary earnings per share increased 16.7% to $2.45, from $2.10 in 1976. Average shares outstanding were 19,433,920, compared with the prior year's 19,186,202.

**Primary Shares***

| QUARTER | **1977** | 1976 | % Gain |
|---|---|---|---|
| First | **$ .32** | $ .28 | 14.3 |
| Second | **.78** | .64 | 21.9 |
| Third | **.83** | .69 | 20.3 |
| Fourth | **.52** | .49 | 6.1 |
| TOTAL | **$2.45** | $2.10 | 16.7 |

Assuming full dilution, earnings per share of $2.37 for the year rose 16.7% over 1976 earnings of $2.03. Diluted earnings were computed on the basis of 20,417,057 average shares, compared with 20,301,988 a year earlier.

**Diluted Shares***

| QUARTER | **1977** | 1976 | % Gain |
|---|---|---|---|
| First | **$ .32** | $ .28 | 14.3 |
| Second | **.75** | .62 | 21.0 |
| Third | **.79** | .66 | 19.7 |
| Fourth | **.51** | .47 | 8.5 |
| TOTAL | **$2.37** | $2.03 | 16.7 |

*Adjusted for 3% stock dividends in each year.

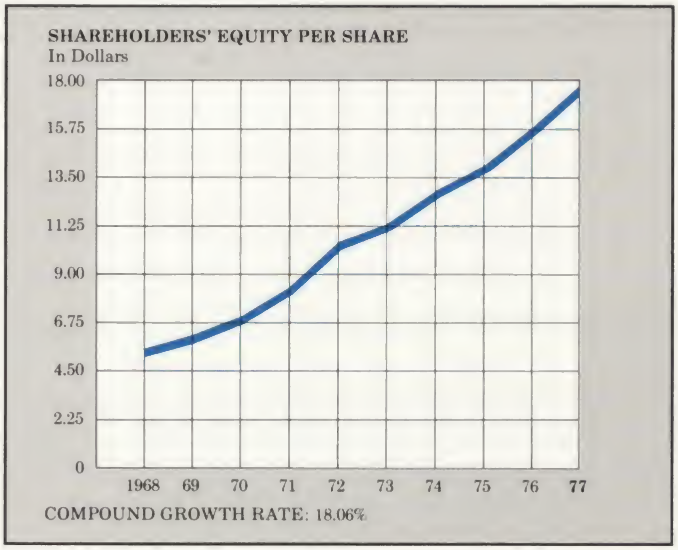
## DIVIDENDS

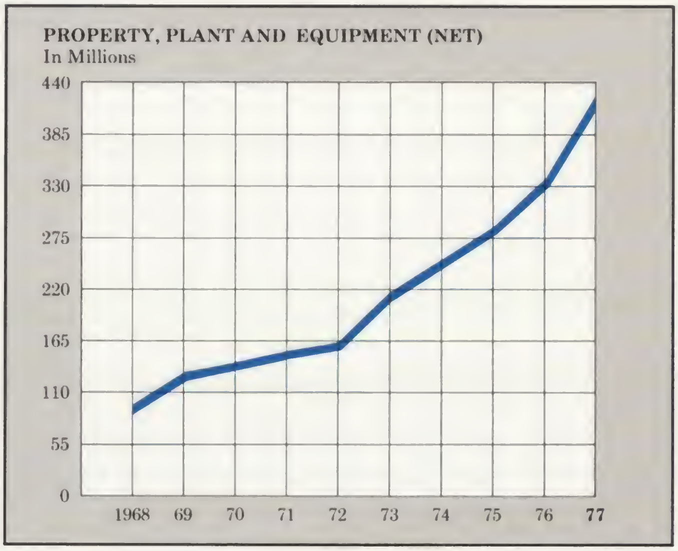
The Company has declared cash dividends each year for the past twenty-one years, and the annual rate has been increased eleven times. During the past seven years, the annual cash dividend rate has been raised six times, providing shareholders with an average annual compound growth rate of 20.8%. For the twelfth consecutive year, a 3% stock dividend was distributed. The Company has declared stock dividends or stock splits each year since 1958 except in 1964.

**Dividends Paid per Common Share**

| CASH: QUARTER | **1977** | 1976 |
|---|---|---|
| First | **$.12½** | $.10 |
| Second | **.15** | .12½ |
| Third | **.15** | .12½ |
| Fourth | **.15** | .12½ |
| TOTAL | **$.57½** | $.47½ |
| STOCK: | **3%** | 3% |

In April, 1977, the annual dividend rate was increased 20% from 50 cents to 60 cents a share, almost four times the 1970 rate. Total cash dividends paid during the year were $10,960,976, or 23% of net earnings. The Company's cash dividend policy reflects the need for reinvestment of earnings to meet shareholders' investment objectives for long-term growth as well as dividend income.




## SHAREHOLDERS' EQUITY

Shareholders' equity was $346.5 million at year-end, compared with $304.5 million a year earlier, and has increased at an average annual rate of 23.6% for the past ten years. During the year, shareholders' equity increased $42 million, principally through retained earnings and by the conversion into common stock of $2.69 million of 5¾% Convertible Subordinated Notes Due 1987.

At year-end, 19,557,287 shares of common stock were outstanding, compared with 18,650,776 a year earlier. This 4.9% increase of 906,511 shares is the result of issuing 565,426 in payment of a 3% stock dividend, 211,311 for conversion of the 5¾% Convertible Subordinated Notes, 105,000 relating to an acquisition, 19,063 under the key employees incentive plan, 5,705 upon the exercise of stock options, and 6 relating to a previous acquisition. At December 31, 1977, 850,767 shares were reserved for issuance upon conversion of outstanding notes and debentures and 628,762 for issuance under two employee stock option plans and a key employees incentive plan.

Return on beginning shareholders' investment (net earnings divided by equity) increased to 15.6%, compared with 14.8% for 1976. Book value per share (shareholders' equity divided by average shares outstanding) increased 12.4% to $17.83, compared with $15.87 at the close of 1976.

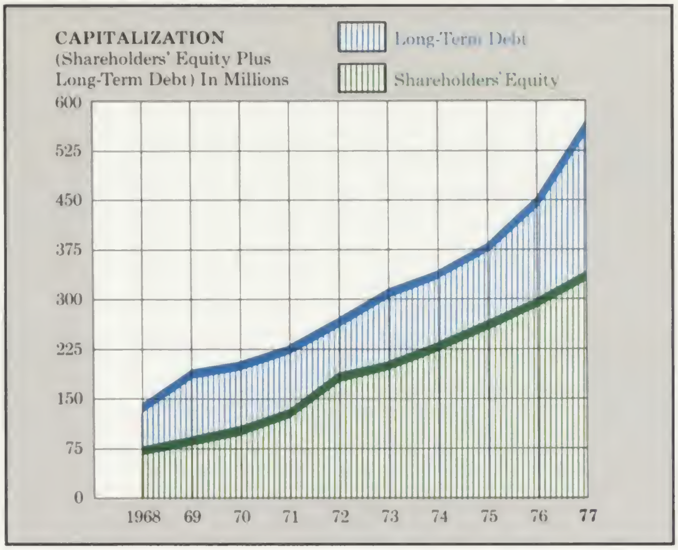
## CAPITAL INVESTMENT

Capital expenditures for property, plant, and equipment increased $7.4 million to $106 million, the largest single-year investment program in Southland's history.

Outlays for the Stores Group accounted for $75.3 million, or 71% of total expenditures, principally for new 7-Eleven stores, self-serve gasoline installations, replacement of equipment, and remodeling existing facilities. Expenditures for the Dairies Group were $9.3 million, or 9%, for new product capacity, manufacturing and productivity improvements, and the purchase of a small milk processing plant. Capital investments of $18.7 million, or 18%, for the Special Operations Group included the addition of two specialty chemical plants, purchase and expansion of sandwich making facilities, as well as purchase of equipment for truck leasing and ice manufacturing operations. Capital expenditures for the Corporate Office were $2.7 million.

During the last five years, Southland has invested $419.6 million in property, plant, and equipment with the Stores Group accounting for 76% of those expenditures. Future plans call for continued major investment to expand operations, maintain modern and up-to-date facilities, increase productivity, and enlarge capacity with approximately the same percentage as in the past allocated to the Stores Group.

Depreciation and amortization expense for 1977 increased $7.4 million, up 20.6% to $43.4 million, compared with $36 million for 1976.




## FINANCIAL POSITION

The Company's conservative financial policies and flexible capital structure – capable of providing the funds necessary to expand productive assets for continued sales and earnings growth – again enabled Southland to finish the year in a strong financial position. To support its growth, Southland has traditionally used a combination of funds provided from operations, as well as the most advantageous combination of debt, equity, and lease financing. The Company is confident that many opportunities are available to expand its sales and earnings base and plans to vigorously pursue those opportunities. It is a long-term goal to finance expansion from retained earnings while, at the same time, offering shareholders income growth through increased cash dividends.

Working capital (current assets minus current liabilities) increased $34.5 million to $149.4 million at year-end, compared with $114.9 million the previous year. The ratio of current assets to current liabilities for both 1977 and 1976 was 1.79-to-1. No short-term debt was outstanding at December 31.

During the year, long-term debt increased a net of $42.4 million to $195.5 million, compared with $153.1 million at the close of 1976, primarily reflecting the issuance in March, 1977, of $50 million 8⅜% Sinking Fund Debentures due February 15, 2002. The debentures were the Company's first unsecured public debt issue and are rated "A" by both Moody's and Standard & Poor's.

In compliance with Statement of Financial Accounting Standards No. 13, capitalized lease obligations of $34.5 million are shown on the balance sheet for certain long-term leases entered into after December 31, 1976. The effect of this requirement on the Company's capital structure is as follows:

**Total Capitalization** (Millions)

| | 1977 | | 1976 | |
|---|---|---|---|---|
| | **Amount** | **%** | Amount | % |
| Long-Term Debt | **$195.5** | **33.9** | $153.1 | 33.5 |
| Capitalized Lease Obligations | **34.5** | **6.0** | – | – |
| Shareholders' Equity | **346.5** | **60.1** | 304.4 | 66.5 |
| TOTAL | **$576.5** | **100.0** | $457.5 | 100.0 |

These levels of debt and equity as a proportion of total capitalization reflect conservative business principles, are consistent with Southland's financial objective of maintaining a strong "A" rating for its unsecured public debt, and provide a firm foundation for continued growth.

## LEASES

While Southland prefers to own the premises from which it conducts its store operations, many desirable locations are available only on a long-term lease basis. The Company considers such leases to be extremely valuable assets and essential to convenience store expansion. At year-end, approximately 65% of the Company's convenience store operations were conducted under leases now defined as capital leases in accordance with Statement of Financial Accounting Standards No. 13 (SFAS 13).

Capital leases for real estate and equipment entered into after December 31, 1976, have been capitalized in the financial statements and accounted for in accordance with the provisions of SFAS 13. As permitted, capital leases entered into prior to January 1, 1977, have not been capitalized. SFAS 13 must be applied retroactively at the end of 1978, and the Company's financial statements for prior years will be restated at that time. See Note 8 to financial statements.

## FOREIGN INVESTMENTS

For the year, Southland's equity in earnings of affiliates, principally R.S. McColl, – stated net of interest on funds used to make the investments, amortization of the excess of investments over net assets acquired, and foreign and U.S. taxes—was $487,026, compared with $426,054 for 1976.

Earnings were translated to U.S. dollars at the average rates of exchange during the reported periods in accordance with the provisions of Statement of Financial Accounting Standards No. 8.

## PROFIT SHARING AND PENSION PLANS

The Company contributes to The Southland Corporation Employees' Savings and Profit Sharing Plan, established in 1949, and to various union pension plans. Eligible employees have the option of joining Southland's voluntary contributory plan. Company contributions to this fully funded, trustee-administered plan are based on pretax earnings. All required contributions to union pension plans have been made.

## MARKET DATA

Southland's common stock is traded under the symbol *SLC* on the New York, Pacific, Boston, and Philadelphia Stock Exchanges. The following market price and earnings per share information has been adjusted for 3% stock dividends in each year. The price/earnings ratios are based upon primary earnings per share for the four preceding quarters.

| QUARTER | PRICE RANGE | | PRICE/ EARNINGS RATIO | |
|---|---|---|---|---|
| 1976 | High | Low | High | Low |
| First | 24⅝ | 20¼ | 13.7 | 11.3 |
| Second | 23 | 19¾ | 12.4 | 10.6 |
| Third | 25 | 22¼ | 12.9 | 11.4 |
| Fourth | 26⅞ | 22⅛ | 13.2 | 10.9 |
| **1977** | | | | |
| **First** | **26⅝** | **21⅜** | **12.7** | **10.2** |
| **Second** | **23⅜** | **19⅞** | **10.9** | **9.3** |
| **Third** | **25⅜** | **22⅜** | **11.1** | **9.8** |
| **Fourth** | **26¼** | **23¼** | **10.8** | **9.6** |

The market price range for the years 1968 through 1977 is shown on pages 14–15 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENT OF CONSOLIDATED EARNINGS

### FISCAL YEAR 1976 COMPARED WITH FISCAL YEAR 1975

In 1976, revenues increased $331.4 million to $2.121 billion, compared with $1.790 billion for 1975, up 18.5%. All operating groups of the Company contributed to the gain, reflecting general improvement in the economy, successful merchandising and advertising programs, gain in average sales volume per store, more aggressive pricing of selected products, an increase in sales of self-serve gasoline, and the opening of new 7-Eleven stores. The Company opened a net of 374 convenience stores in 1976, compared with 408 the previous year.

Other income increased from $1,826,000 to $5,377,000 as a result of increases in net gain on sale of assets no longer of use to the Company, interest income, area license royalties, and miscellaneous income.

Gross margin for the year was 25.21%, compared with 25.57% for 1975. The decline was the result of more aggressive pricing of selected items in convenience stores, higher farm milk costs without corresponding market price increases, and a changing product mix, including a substantial increase in sales of self-serve gasoline, a high-volume low-gross profit product available at year-end at 1,235 7-Eleven stores.

The ratio of expenses to revenues declined from 21.76% in 1975 to 21.41% in 1976 reflecting continuing programs implemented by management to control operating expenses. During 1976, revenues increased 18.5%, cost of goods sold including buying and occupancy expenses 19.1%, and expenses (selling, general and administrative expenses, interest expense, and contributions to Employees' Savings and Profit Sharing Plan) 16.6% compared with 1975. Interest expense increased 25.1% in 1976, due to an increase in mortgage debt incurred to finance new 7-Eleven stores.

The Dairies Group represented 8% of the Company's operating profit in 1976, compared with 11% in 1975. The decline principally was due to a reduction in gross margin caused by higher farm milk costs without corresponding market price increases.

Contributions to the Employees' Savings and Profit Sharing Plan increased 19.3% in 1976, to $8.3 million, compared with $7 million in 1975, as the result of increased earnings before income taxes.

A lower gross margin, offset in part by a reduction in the ratio of expenses to revenues, resulted in net return on revenues of 1.90%, compared with 1.92% for 1975. Net earnings were $40.3 million, up 17.4% from 1975 earnings of $34.3 million.

## FISCAL YEAR 1977 COMPARED WITH FISCAL YEAR 1976

In 1977, revenues increased $423.3 million to $2.544 billion, compared with $2.121 billion for 1976. The exceptionally strong 19.9% increase resulted from successful merchandising and advertising programs, gain in average sales volume per store, competitive pricing of selected products in the convenience stores, a substantial increase in sales of self-serve gasoline, and the opening of new 7-Eleven stores. The Company opened a net of 404 convenience stores in 1977, compared with 374 the previous year.

Other income increased from $5,377,000 to $8,369,000 as a result of increases in interest income on cash investments, area license royalties, net gain on sale of assets no longer of use to the Company, and miscellaneous income.

Gross margin for the year was 24.79%, compared with 25.21% for 1976. The decline resulted from sustained pressure on already modest dairy margins due to higher farm milk costs, severe competition in many market areas, consumer resistance to price adjustments, and an increase in general business costs. In addition, margins were influenced by promotional programs, competitive pricing of selected items in convenience stores, and a changing product mix, including a substantial increase in sales of self-serve gasoline, a high-volume low-gross profit product available at year-end at 1,573 7-Eleven stores.

The excellent sales gain contributed to a reduction in the ratio of expenses to revenues from 21.41% in 1976 to 21.08% for 1977. Revenues increased 19.9%, cost of goods sold including buying and occupancy expenses 20.6%, and expenses (selling, general and administrative expenses, interest expense, and contributions to Employees' Savings and Profit Sharing Plan) 18.1%, compared with 1976. Interest expense increased from $8,837,000 to $14,840,000 primarily as a result of the $50 million 8⅜% debentures sold in March, 1977, mortgage debt to finance new 7-Eleven stores, and the effect of $2.2 million of imputed interest from leases entered into after December 31, 1976, accounted for in accordance with Statement of Financial Accounting Standards No. 13.

Contributions to the Employees' Savings and Profit Sharing Plan increased 16.5% in 1977, to $9.7 million, compared with $8.3 million in 1976, as the result of increased earnings before income taxes.

A lower gross margin, offset in part by a reduction in the ratio of expenses to revenues, resulted in net return on revenues of 1.87%, compared with 1.90% for 1976. Net earnings were a record $47.6 million, up 18.2% from 1976 earnings of $40.3 million.

**SEGMENT INFORMATION** (Excluding Intersegment Sales) (Millions)

| | Years Ended December 31 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **1977** | | 1976 | | 1975 | | 1974 | | 1973 | |
| **Revenues:** | | | | | | | | | | |
| Retail store operations* | **$2,271.9** | **89%** | $1,857.5 | 88% | $1,556.0 | 87% | $1,405.4 | 87% | $1,217.1 | 87% |
| Dairy operations | **236.5** | **9** | 236.1 | 11 | 208.3 | 12 | 184.0 | 12 | 158.2 | 11 |
| Other operations* | **33.7** | **2** | 26.0 | 1 | 25.0 | 1 | 22.6 | 1 | 20.3 | 2 |
| Corporate | **2.4** | **—** | 1.5 | — | .5 | — | 1.1 | — | .8 | — |
| Total | **$2,544.5** | **100%** | $2,121.1 | 100% | $1,789.8 | 100% | $1,613.1 | 100% | $1,396.4 | 100% |
| **Operating Profits:** | | | | | | | | | | |
| Retail store operations | **$ 108.0** | **90%** | $ 84.2 | 86% | $ 74.9 | 88% | $ 62.0 | 85% | $ 47.9 | 86% |
| Dairy operations | **5.2** | **4** | 7.8 | 8 | 9.4 | 11 | 7.3 | 10 | 5.6 | 10 |
| Other operations | **6.8** | **6** | 5.9 | 6 | .8 | 1 | 3.7 | 5 | 2.2 | 4 |
| Total | **$ 120.0** | **100%** | $ 97.9 | 100% | $ 85.1 | 100% | $ 73.0 | 100% | $ 55.7 | 100% |

*Segment reporting requires that sales to unaffiliated customers of the Fast Foods Division and certain miscellaneous operations be included under retail store operations in the table above. (See Note 13 to financial statements.) These sales, $15.4 million outside and $37.4 million intracompany, are reflected in the Special Operations Group on page 10.

# STATEMENT OF CONSOLIDATED EARNINGS
## THE SOUTHLAND CORPORATION AND SUBSIDIARIES
Years ended December 31 (Dollars in thousands except per share data)

| | 1977 | 1976 | 1975 | 1974 | 1973 |
|---|---|---|---|---|---|
| **Revenues** (Note 1): | | | | | |
| Net sales | **$2,536,109** | $2,115,768 | $1,787,928 | $1,609,257 | $1,393,622 |
| Other income | **8,369** | 5,377 | 1,826 | 3,868 | 2,869 |
| | **2,544,478** | 2,121,145 | 1,789,754 | 1,613,125 | 1,396,491 |
| **Cost of Sales and Expenses:** | | | | | |
| Cost of goods sold, including buying and occupancy expenses | **1,913,793** | 1,586,371 | 1,332,132 | 1,191,819 | 1,034,391 |
| Selling, general and administrative expenses | **511,727** | 437,005 | 375,382 | 349,759 | 308,163 |
| Interest expense (including $2,170 of imputed interest on capitalized leases in 1977) | **14,840** | 8,837 | 7,066 | 7,805 | 5,233 |
| Contributions to Employees' Savings and Profit Sharing Plan | **9,726** | 8,346 | 6,995 | 5,899 | 4,558 |
| | **2,450,086** | 2,040,559 | 1,721,575 | 1,555,282 | 1,352,345 |
| **Earnings Before Income Taxes and Equity in Earnings of Affiliates** | **94,392** | 80,586 | 68,179 | 57,843 | 44,146 |
| **Income Taxes** (Note 9) | **47,283** | 40,735 | 34,459 | 28,718 | 21,746 |
| **Earnings Before Equity in Earnings of Affiliates** | **47,109** | 39,851 | 33,720 | 29,125 | 22,400 |
| **Equity in Earnings of Affiliates** (Notes 1 and 2) | **487** | 426 | 599 | 611 | 928 |
| **Net Earnings** | **$ 47,596** | $ 40,277 | $ 34,319 | $ 29,736 | $ 23,328 |
| **Per Share** (Note 10) | | | | | |
| **Primary earnings** | **$2.45** | $2.10 | $1.80 | $1.60 | $1.26 |
| **Earnings assuming full dilution** | **$2.37** | $2.03 | $1.74 | $1.52 | $1.20 |

See notes to financial statements.

# CONSOLIDATED BALANCE SHEET
## THE SOUTHLAND CORPORATION AND SUBSIDIARIES

### ASSETS

| | December 31 1977 | December 31 1976 |
|---|---|---|
| **Current Assets:** | | |
| Cash | **$ 5,867,454** | $ 5,497,245 |
| Cash investments | **60,036,347** | 20,902,012 |
| Accounts and notes receivable (Note 3) | **75,171,378** | 67,382,760 |
| Inventories (Note 1) | **126,913,578** | 105,028,941 |
| Deposits and prepaid expense | **17,184,340** | 16,825,899 |
| Investment in property (Note 1) | **53,319,492** | 43,977,063 |
| **Total Current Assets** | **338,492,589** | 259,613,920 |
| **Investments in Affiliates** (Notes 1 and 2) | **26,717,136** | 25,655,777 |
| **Other Assets** | **5,627,054** | 4,673,150 |
| **Property, Plant and Equipment** (Notes 1 and 4) | **389,251,583** | 339,447,097 |
| **Capitalized Leases** (Notes 1 and 8) | **35,907,574** | – |
| | **$795,995,936** | $629,389,944 |

See notes to financial statements.

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31 1977 | December 31 1976 |
|---|---|---|
| **Current Liabilities:** | | |
| Long-term debt due within one year | **$ 4,142,055** | $ 4,753,669 |
| Capitalized lease obligations due within one year | **1,726,515** | – |
| Accounts payable and accrued expense | **167,704,488** | 128,956,482 |
| Income taxes | **15,481,417** | 11,039,000 |
| **Total Current Liabilities** | **189,054,475** | 144,749,151 |
| **Deferred Credits** (Note 6) | **30,391,140** | 27,096,781 |
| **Long-Term Debt, due after one year** (Note 5) | **195,520,000** | 153,092,602 |
| **Capitalized Lease Obligations, due after one year** (Note 8) | **34,489,950** | – |
| **Commitments** (Note 8) | | |
| **Shareholders' Equity** (Notes 5 and 7): | | |
| Common stock, $.01 par value, authorized 40,000,000 shares, issued and outstanding 19,557,287 and 18,650,776 shares | **195,573** | 186,508 |
| Additional paid-in capital | **223,499,143** | 204,095,650 |
| Earnings retained in the business | **122,845,655** | 100,169,252 |
| | **346,540,371** | 304,451,410 |
| | **$795,995,936** | $629,389,944 |

See notes to financial statements.

# STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY
## THE SOUTHLAND CORPORATION AND SUBSIDIARIES

| | Year ended December 31 1977 | 1976 |
|---|---|---|
| **Common Stock:** | | |
| Balance January 1 | **$ 186,508** | $ 180,360 |
| Exercise of stock options | **57** | – |
| 3% Stock dividend | **5,654** | 5,391 |
| Conversion of notes | **2,113** | 628 |
| Stock issued under key employees incentive plan | **191** | 129 |
| Purchase acquisition | **1,050** | – |
| Balance December 31 | **195,573** | 186,508 |
| **Additional Paid-In Capital:** | | |
| Balance January 1 | **204,095,650** | 189,165,594 |
| Exercise of stock options | **97,286** | – |
| 3% Stock dividend | **13,847,283** | 13,807,330 |
| Conversion of notes | **2,687,887** | 822,372 |
| Stock issued under key employees incentive plan | **462,087** | 300,354 |
| Purchase acquisition | **2,308,950** | – |
| Balance December 31 | **223,499,143** | 204,095,650 |
| **Earnings Retained In The Business:** | | |
| Balance January 1 | **100,169,252** | 82,475,156 |
| Net earnings for the year | **47,595,583** | 40,277,262 |
| | **147,764,835** | 122,752,418 |
| Less: | | |
| Cash dividends | **10,960,976** | 8,659,763 |
| Cash paid in lieu of fractional shares | **105,267** | 110,682 |
| 3% Stock dividend | **13,852,937** | 13,812,721 |
| | **24,919,180** | 22,583,166 |
| Balance December 31 | **122,845,655** | 100,169,252 |
| **Total Shareholders' Equity** (Notes 5 and 7) | **$346,540,371** | $304,451,410 |

See notes to financial statements.

# STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION
## THE SOUTHLAND CORPORATION AND SUBSIDIARIES

| | Year ended December 31 1977 | 1976 |
|---|---|---|
| **Source of Funds:** | | |
| From operations: | | |
| Net earnings | **$ 47,595,583** | $ 40,277,262 |
| Depreciation and amortization | **43,467,015** | 36,044,465 |
| Deferred income taxes and other credits | **4,514,485** | 5,389,896 |
| Funds provided from operations | **95,577,083** | 81,711,623 |
| Long-term debt | **61,534,160** | 40,355,855 |
| Increase in accounts payable, accruals and income taxes | **41,148,460** | 20,415,655 |
| Capitalized lease obligations | **37,409,857** | – |
| Property retirements and sales | **12,774,857** | 12,097,421 |
| Decrease in investment in property | – | 3,307,352 |
| Conversion of notes | **2,690,000** | 823,000 |
| Stock issued in purchase acquisition | **2,310,000** | – |
| Stock issued under key employees incentive plan | **462,278** | 300,483 |
| Exercise of stock options | **97,343** | – |
| Decrease in deposits and prepaid expense | **35,039** | – |
| | **$254,039,077** | $159,011,389 |

| | 1977 | 1976 |
|---|---|---|
| **Application of Funds:** | | |
| Property, plant and equipment | **$ 96,324,184** | $ 98,630,811 |
| Increase in cash and cash investments | **39,352,065** | 19,870,990 |
| Capitalized leases | **37,409,857** | – |
| Increase in inventories | **18,406,759** | 12,644,667 |
| Cash dividends | **10,960,976** | 8,659,763 |
| Increase in accounts and notes receivable | **5,732,820** | 7,612,191 |
| Payment of long-term debt | **17,474,105** | 6,224,956 |
| Increase in deposits and prepaid expense | – | 3,851,436 |
| Conversion of notes | **2,690,000** | 823,000 |
| Reduction in capitalized lease obligations | **1,193,392** | – |
| Cash paid in lieu of fractional shares | **105,267** | 110,682 |
| Investments in affiliates | **1,061,359** | 32,424 |
| Increase in investment in property | **9,342,429** | – |
| Other | **836,640** | 550,469 |
| Net assets of businesses purchased for stock and cash | **13,149,224** | – |
| | **$254,039,077** | $159,011,389 |

See notes to financial statements.

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

# Notes to Financial Statements

*YEARS ENDED DECEMBER 31, 1977 AND 1976*

## 1. Accounting Policies:

*Principles of Consolidation*

The financial statements include the assets, liabilities, sales, costs, and expenses of domestic and Canadian subsidiaries, all of which are wholly-owned. Intracompany transactions have been eliminated. The classifications currently in use have been applied to the statements for 1976.

Investments in affiliates and a wholly-owned United Kingdom subsidiary are accounted for by the equity method. Accordingly, such investments are shown at cost to the Company plus equity in undistributed earnings since acquisition.

*Foreign Operations*

Operations and earnings of foreign subsidiaries and affiliates are translated to U.S. dollars in accordance with the provisions of Statement of Financial Accounting Standards No. 8. Exchange rate adjustments are charged or credited to income. Such adjustments have not been material.

*Revenues*

Net sales are comprised of sales of products and merchandise (including sales by stores operated by franchisees) and other operating revenues which consist principally of truck rentals.

Sales by stores operated under domestic and foreign area license agreements are not included. All fees or royalties arising from such agreements are included in other income. Initial fees are recognized as the services required under the agreements are performed.

*Inventories*

Inventories are stated at the lower of cost (first-in, first-out) or market, which, as to merchandise in stores, is determined by the retail inventory method. The effect of inflation is not significant, as the holding period for items in inventory is relatively short.

*Investment in Property*

Investment in property includes land and buildings to be mortgaged or to be sold to outsiders for cash and leased back. The Company expects that cash will be realized for these assets within a twelve-month period. Working capital is used in the construction of these assets.

*Property, Plant and Equipment*

Provision for depreciation has been made at annual rates based upon the estimated useful lives of assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining terms of the leases or the estimated useful lives of such improvements, whichever is shorter. Maintenance and repairs are charged to income, whereas renewals and betterments are capitalized.

*Leases*

Leases entered into after December 31, 1976, have been accounted for in accordance with the provisions of Statement of Financial Accounting Standards No. 13 (SFAS 13).

## 2. Investments In Affiliates:

Investments in affiliates consists primarily of amounts invested in a wholly-owned United Kingdom subsidiary engaged in the operation of retail stores. The year for determining earnings of this subsidiary ends in October. Equity in such earnings is stated net of interest on borrowings used to make the investments, amortization of the excess of the investments over the net assets acquired (straight-line over 40 years), foreign income taxes, and a provision for United States federal income taxes.

## 3. Accounts and Notes Receivable:

| | 1977 | 1976 |
|---|---|---|
| Trade | **$47,218,362** | $42,227,121 |
| Franchisee | **30,763,776** | 27,613,543 |
| | **77,982,138** | 69,840,664 |
| Less allowance for doubtful accounts | **2,810,760** | 2,457,904 |
| | **$75,171,378** | $67,382,760 |

## 4. Property, Plant and Equipment:

| | 1977 | 1976 |
|---|---|---|
| COST: | | |
| Land | **$ 57,423,052** | $ 50,169,693 |
| Buildings and leaseholds | **214,631,768** | 185,314,201 |
| Machinery and equipment | **251,071,572** | 221,647,641 |
| Vehicles | **47,361,480** | 35,943,068 |
| Construction in process | **7,989,455** | 7,103,661 |
| | **578,477,327** | 500,178,264 |
| Less accumulated depreciation | **189,225,744** | 160,731,167 |
| | **$389,251,583** | $339,447,097 |

Approximately 31% of the net book value of property, plant, and equipment is mortgaged. Mortgage lenders to certain real estate subsidiaries, all of which are wholly-owned, hold pledges of the shares of those real estate subsidiaries as additional collateral for such mortgages.

## 5. Long-Term Debt:

At December 31, 1977, long-term debt and amounts due within one year were as follows:

| | Amount outstanding | Current portion | Balance included in long-term debt |
|---|---|---|---|
| 5% – 9.86% Real estate and equipment notes (mature 1978 to 2005) | $119,362,055 | $4,112,055 | $115,250,000 |
| 5¾% Convertible subordinated notes due 1987 | 300,000 | 30,000 | 270,000 |
| 5% Convertible subordinated debentures due 1987 | 30,000,000 | – | 30,000,000 |
| 8⅜% Sinking fund debentures due 2002 | 50,000,000 | – | 50,000,000 |
| | $199,662,055 | $4,142,055 | $195,520,000 |

The 5¾% convertible notes and the 5% convertible debentures may, at the option of the holders, be converted at any time prior to maturity into the Company's common stock. The present conversion ratios are 76.89 and 27.59 shares, respectively, for each $1,000 of principal. At December 31, 1977, there were 850,767 shares reserved for the conversion of these notes and debentures.

The 8⅜% debentures require annual sinking fund payments beginning February 15, 1983, in the amount of $2,500,000, which, at the option of the Company, may be increased to $5,000,000.

At December 31, 1977, the aggregate amount of long-term debt maturities was as follows for the years ending December 31: 1978–$4,142,000; 1979–$4,004,000; 1980–$3,815,000; 1981–$3,903,000; 1982–$3,977,000.

**6. Deferred Credits:**

For financial reporting purposes, investment credits relating to leased and purchased equipment, which are allowed as credits against federal income taxes, are taken into income ratably over either the terms of the leases or the useful lives of the assets.

Deferred federal income taxes result primarily from the use of accelerated depreciation methods for tax purposes.

| | Investment credits | Deferred federal income taxes | Other | Total |
|---|---|---|---|---|
| Balance January 1, 1976 | $ 8,209,258 | $13,824,240 | $1,298,558 | $23,332,056 |
| Provided for the year | 4,316,000 | 1,606,000 | 83,170 | 6,005,170 |
| Taken into income | (2,240,445) | – | – | (2,240,445) |
| Balance December 31, 1976 | 10,284,813 | 15,430,240 | 1,381,728 | 27,096,781 |
| Provided for the year | 4,375,000 | 961,000 | 94,478 | 5,430,478 |
| Taken into income | (2,136,119) | – | – | (2,136,119) |
| Balance December 31, 1977 | $12,523,694 | $16,391,240 | $1,476,206 | $30,391,140 |

**7. Common Stock:**

At December 31, 1977, under a qualified stock option plan which terminated during 1974, options for 37,842 shares of the Company's common stock at prices ranging from $16.42 to $18.88 were outstanding and exercisable. During 1977, 5,705 shares were issued upon exercise of options at prices ranging from $16.42 to $18.88 and options for 40,544 shares expired or were canceled. During 1976, no shares were issued upon exercise of options and options for 37,974 shares expired or were canceled.

At December 31, 1977, under a nonqualified stock option plan adopted in April 1977, options for 202,598 shares of the Company's common stock were outstanding at $20.87 per share, of which options for 20,260 shares were exercisable. During 1977, no options were exercised and no options expired or were canceled. An additional 312,396 shares are available for future grants under this plan.

At December 31, 1977, a total of 75,926 shares of the Company's common stock were reserved for issuance pursuant to a key employees incentive plan, of which approximately 18,600 shares will be issued in 1978. In 1977 and 1976, respectively, 19,635 and 13,711 shares were issued under the plan.

The above information has been adjusted for stock dividends.

**8. Leases:**

Certain of the property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms of from 15 to 20 years, with options to renew for additional periods, and equipment leases are for terms of from 5 to 10 years. No restrictions are imposed by the leases which have a material effect on the Company's operations.

Leases entered into after December 31, 1976, have been accounted for as capital or operating leases in accordance with the provisions of SFAS 13. All leases existing on December 31, 1976, have been accounted for as operating leases.

*Capital Leases*

The composition of capital leases entered into after December 31, 1976, which have been capitalized and are reflected as assets in the consolidated balance sheet, is as follows:

| | |
|---|---|
| Land and buildings | $26,838,032 |
| Equipment | 10,570,276 |
| | 37,408,308 |
| Less accumulated amortization | 1,500,734 |
| | $35,907,574 |

The present value of net minimum lease payments of $36,216,465 applicable to the leases capitalized in 1977 is reflected in the consolidated balance sheet as current and noncurrent lease obligations of $1,726,515 and $34,489,950, respectively, and represents the total minimum lease payments less estimated executory costs of $755,255 and an amount representing interest of $31,035,280. Future minimum lease payments on these leases totaled $68,007,000 and are due in: 1978–$4,913,000; 1979–$4,912,000; 1980–$4,903,000; 1981–$4,893,000; 1982–$4,714,000; and thereafter – $43,672,000.

The amount representing interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease. Noncancellable sublease rental income and contingent rental expense are not material and have not been included in total minimum lease payments.

Capital leases entered into prior to January 1, 1977, have not been capitalized in the financial statements. SFAS 13 must be applied retroactively at the end of 1978 and the Company's financial statements for prior years will be restated at that time to capitalize those leases. If those leases had been capitalized at December 31, 1977 and 1976, respectively, total assets would have been increased by $152,192,000 and $170,460,000 and total liabilities, representing the present value of future minimum lease payments, would have been increased by $175,054,000 and $190,321,000. If all capital leases existing at December 31, 1976, had been capitalized, net income would have been reduced by $1,500,000 (7.7¢ per share) in 1977.

*Operating Leases*

Future minimum lease payments required by operating leases at December 31, 1977, total $548,041,000 and are due in: 1978–$55,376,000; 1979–$52,108,000; 1980–$48,486,000; 1981–$43,755,000; 1982–$39,591,000; and thereafter – $308,725,000. These lease payments have not been reduced by $14,868,000 of future rental income under noncancellable subleases.

Lease expense on operating leases in the years ended December 31, 1977 and 1976, respectively, totaled $53,935,000 and $57,734,000, which includes contingent rental expense of $1,557,000 and $1,533,000. Lease expense was reduced by $4,083,000 and $3,650,000 of rental income received under subleases.

## 9. Income Taxes:

Income taxes provided for are summarized below:

| | **1977** | 1976 |
|---|---|---|
| Federal: | | |
| Current | **$36,634,400** | $29,345,000 |
| Deferred | **5,336,000** | 5,922,000 |
| State | **5,312,600** | 5,468,000 |
| | **$47,283,000** | $40,735,000 |

**10. Earnings Per Share:**

Primary earnings per share are based upon the average number of shares of the Company's common stock outstanding during each year after giving effect to subsequent stock dividends.

Earnings per share, assuming full dilution, are based upon (a) the number of shares used in computing primary earnings per share, (b) shares issuable upon conversion of convertible notes and debentures at the stated conversion rates (related interest requirements eliminated), (c) the number of shares issuable on the exercise of stock options after reduction for shares assumed to have been purchased with proceeds, and (d) average shares issuable under the key employees incentive plan.

**11. Quarterly Financial Data (Unaudited):**

The classification of items in determining gross profit for the first three quarters of 1977 has been conformed to that used in the statement of consolidated earnings. Summarized quarterly financial data for 1977 is as follows (000's omitted):

| | Three Months Ended | | | |
|---|---|---|---|---|
| | **March 31** | **June 30** | **September 30** | **December 31** |
| Net sales | $535,296 | $646,017 | $691,819 | $662,977 |
| Gross profit | 128,950 | 162,538 | 173,167 | 157,661 |
| Net earnings | 6,190 | 15,140 | 16,064 | 10,202 |
| Earnings per share: | | | | |
| Primary | $.32 | $.78 | $.83 | $.52 |
| Fully diluted | .32 | .75 | .79 | .51 |

Summarized quarterly financial data for 1976 is as follows (000's omitted):

| | Three Months Ended | | | |
|---|---|---|---|---|
| | **March 31** | **June 30** | **September 30** | **December 31** |
| Net sales | $465,314 | $537,820 | $568,158 | $544,476 |
| Gross profit | 111,845 | 138,177 | 144,442 | 134,933 |
| Net earnings | 5,456 | 12,277 | 13,197 | 9,347 |
| Earnings per share: | | | | |
| Primary | $.28 | $.64 | $.69 | $.49 |
| Fully diluted | .28 | .62 | .66 | .47 |

**12. Replacement Cost Information (Unaudited):**

Replacement cost information (required by Rule 3–17 of Regulation S-X) will appear in the notes to financial statements contained in the Form 10-K to be filed with the Securities and Exchange Commission.

The unit cost of merchandise purchased for sale increased slightly during 1977. No significant impact on earnings arises from these increases because the average holding period for such merchandise is relatively short and the Company has the ability to react quickly to cost changes and make appropriate adjustments to selling prices.

**13. Segment Information (000's omitted):**

Retail store operations includes all retail stores in the United States and Canada as well as distribution and food preparation, self-serve gasoline, and other activities which derive the majority of revenues and operating profits from support of the stores. Dairy operations includes milk and ice cream processing and distribution, salad-making, and packaging. Other operations includes

the ice, chemical, and truck leasing divisions. Corporate adjustments and eliminations reflects general corporate items not allocable to segments and the elimination of intersegment sales.

Intersegment sales are accounted for on a cost plus markup basis. Expenses directly identifiable with a segment and certain allocated expenses are used to determine operating profit by segment.

| | Retail store operations | Dairy operations | Other operations | Corporate adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|
| Sales to unaffiliated customers | $2,267,826 | $235,907 | $32,376 | $ — | $2,536,109 |
| Intersegment sales | — | 125,760 | 14,527 | (140,287) | — |
| Operating revenue | 2,267,826 | 361,667 | 46,903 | (140,287) | 2,536,109 |
| Other income | 4,098 | 625 | 1,266 | 2,380 | 8,369 |
| TOTAL REVENUES | $2,271,924 | $362,292 | $48,169 | $(137,907) | $2,544,478 |
| Operating profit | $ 108,031 | $ 5,158 | $ 6,807 | $ — | $ 119,996 |
| General corporate expenses | | | | | 10,764 |
| Interest expense | | | | | 14,840 |
| Earnings before income taxes and equity in earnings of affiliates | | | | | $ 94,392 |
| Identifiable assets at December 31, 1977 | $ 588,894 | $ 89,464 | $43,233 | $ 74,405 | $ 795,996 |
| Depreciation and amortization expense | $ 33,071 | $ 3,758 | $ 5,264 | $ 1,374 | $ 43,467 |
| Capital expenditures: | | | | | |
| Additions to property, plant and equipment | $ 69,352 | $ 8,442 | $15,870 | $ 2,660 | $ 96,324 |
| Acquisitions of property, plant and equipment | 6,009 | 885 | 2,831 | — | 9,725 |
| Capitalized leases | 35,390 | 1,936 | 73 | 11 | 37,410 |
| TOTAL | $ 110,751 | $ 11,263 | $18,774 | $ 2,671 | $ 143,459 |

TOUCHE ROSS & CO.

2001 BRYAN TOWER, SUITE 2400
DALLAS, TEXAS 75201

Board of Directors and Shareholders
The Southland Corporation
Dallas, Texas

We have examined the consolidated balance sheets of The Southland Corporation and subsidiaries as of December 31, 1977 and 1976, and the related statements of earnings, shareholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

Dallas, Texas
February 10, 1978

# BOARD OF DIRECTORS

John P. Thompson
*Chairman of the Board and Chief Executive Officer*

H. E. Hartfelder
*Vice Chairman of the Board*

Jere W. Thompson
*President*

William W. Atwell*
*President*
*Atwell Construction Co., Inc.*

J. Y. Ballard*
*Consulting Engineer*

Walton Grayson, III
*Executive Vice President*

Joseph S. Hardin
*Executive Vice President*

Mark L. Lemmon, M.D.*
*Plastic and Reconstructive Surgeon*

Clifford W. Wheeler
*Vice President*

*Members of Audit Committee

# OFFICERS

John P. Thompson
*Chairman of the Board and Chief Executive Officer*

H. E. Hartfelder
*Vice Chairman of the Board*

Jere W. Thompson
*President*

Walton Grayson, III
*Executive Vice President, Administration and Services*

Joseph S. Hardin
*Executive Vice President, Planning and Special Operations*

Ray D. Berry
*Vice President, Western Stores Region*

M. T. Cochran, Jr.
*Vice President, Dairies Group*

S. R. Dole
*Vice President, Stores Group*

Vaughn R. Heady
*Vice President, Stores Group*

Clark J. Matthews, II
*Vice President, General Counsel*

W. K. Ruppenkamp
*Vice President, Financial Relations*

Forrest Stout
*Vice President, Southern Stores Region*

Joe C. Thompson, Jr.
*Vice President, Central Stores Region*

Clifford W. Wheeler
*Vice President*

R G Smith
*Secretary and Treasurer*

P. Eugene Pender
*Controller*

# SHAREHOLDER INFORMATION

**SECURITIES LISTED:**
**COMMON STOCK**
**8⅜% SINKING FUND DEBENTURES**
*New York Stock Exchange*
**5% CONVERTIBLE SUBORDINATED DEBENTURES**
*Luxembourg Stock Exchange*

**TRANSFER AGENT AND REGISTRAR:**
**COMMON STOCK**
*First National Bank in Dallas*
**8⅜% SINKING FUND DEBENTURES**
*Mercantile National Bank at Dallas*

**AUDITORS:**
*Touche Ross & Co.*
*Dallas, Texas*

**ANNUAL MEETING:**
*The Annual Meeting of the Company will be held at 10 a.m. Wednesday, April 26, 1978, in the North Wing Auditorium of the Corporate Office, 2828 North Haskell Avenue, Dallas, Texas. All shareholders are cordially invited to attend.*

**FORM 10-K:**
*Shareholders may obtain a copy, exclusive of exhibits, of the form 10-K Annual Report for the year ended December 31, 1977, as filed with the Securities and Exchange Commission, by writing to the Financial Relations Department at the Company's mailing address.*

**AUTOMATIC STOCK PURCHASE PLAN:**
*This plan provides a simple, convenient, and inexpensive way for shareholders to invest cash dividends and voluntary cash deposits in additional Southland shares. For further information, write the Financial Relations Department at the Company's mailing address.*

**MAILING ADDRESS:**
*P. O. Box 719, Dallas, Texas 75221*

**TELEPHONE:**
*(214) 828-7011*

THE SOUTHLAND CORPORATION

# 1977 ANNUAL REPORT
## THE SOUTHLAND CORPORATION
2828 NORTH HASKELL · DALLAS, TEXAS 75204